## Panel discussion

In the panel discussion, Linnainmaa queried whether company compensation schemes had become so complex, with unclear long-term incentives, that directors no longer found them motivating.

Sikora-Wittnebel pointed out that research suggests that the way share-based remuneration is used, in particular, can be quite counter-productive. "Its aim is to incentivize long-term behaviors but sometimes it has the contrary effect," she said.

An audience member concurred with this view, pointing out that it could be risky to tie up too much of the directors' wealth in stock since these individuals are also expected to communicate honestly with the market about their company's fortunes.

With respect to whether remuneration statements should be standardized, Di Noia confirmed that he agreed with the results of the audience poll – they should be partially standardized but leaving some flexibility. The UK is already looking at this and has formed a working group, which has developed some guidelines to assist companies' remuneration committees.

Summing up, Sikora-Wittnebel said poignantly: "Transparency is like democracy. It has a lot of downsides and creates a lot of problems, but we haven't found a better solution yet."

# Audience poll*

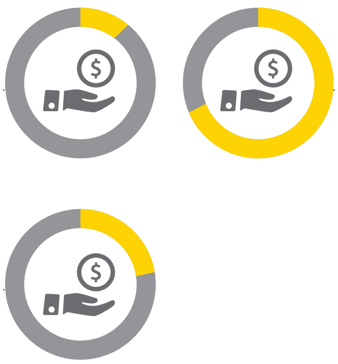
**How should government appointees on the board of a state-owned enterprise be remunerated?**

**12%**
They should just receive basic government salary

**45%**
They should receive their basic salary plus an extra amount reflecting their increased responsibility

**43%**
They should receive the same as any other board director

**To what extent should remuneration statements be standardized?**



**8%**
Completely

**69%**
Partially, but leaving some flexibility

**23%**
Not at all. Let companies decide

04

# The relationship between digital transformation and corporate governance

Digitalization is transforming the global economy. In this session, panelists debated whether the existing company law and corporate governance frameworks are fit to embrace the digital age

**Panellists:** Jérôme P. Chauvin, Deputy Director General, BusinessEurope

Markus Kaum, Head of the Legal Department, Munich Re

Miroslav Trnka, Co-founder and Co-owner, ESET

Ann LaFrance, Partner and Co-leader, Data Privacy & Cybersecurity Practice, Squire Patton Boggs

Jonathan Nelson, Corporate Governance Leadership Team, Sustainalytics

**Moderator:** Florence Bindelle, Secretary General, EuropeanIssuers

> "Digital, if well implemented in the life of the company, can help the company to move faster in what is already a highly competitive and globalized environment."
>
> **Jérôme P. Chauvin**
> Deputy Director General
> BusinessEurope

> "System infiltrations raise very serious governance concerns. Cyber attacks can harm an organization's operations and lead to the theft of its intellectual property. In the absence of appropriate security, cyber attackers could also easily manipulate the results of voting on the digital platforms and proprietary systems used in shareholder annual general meetings."
>
> **Ann LaFrance**
> Partner and Co-leader
> Data Privacy & Cybersecurity Practice,
> Squire Patton Boggs

In 2014, EU President Jean-Claude Juncker identified the creation of a digital single market as one of the priorities of the European Commission. So where are we today? This was the question posed by panel moderator Florence Bindelle, Secretary General of EuropeanIssuers, an organization representing quoted companies across Europe to the EU institutions.

## Opportunities and challenges

Digitalization has changed the way that companies operate and create value, said Jérôme P. Chauvin, Deputy Director General of BusinessEurope, which represents national business associations in EU member states. It has also changed the way in which they relate to their customers, investors, market authorities, shareholders, stakeholders and workers.

The benefits of digitalization include cost savings, efficiency gains and the ability to conduct business quicker and in more markets of the world. "Digital, if well implemented in the life of the company, can help the company to move faster in what is already a highly competitive and globalized environment," noted Chauvin.

Nevertheless, despite the obvious value of digitization, Chauvin highlighted that its potential to improve corporate governance had been overlooked by companies and policymakers, particularly at EU level. "In the US, it is common practice to have shareholder meetings with e-facilities, webcasts and electronic votes," he said. "This is the case in some EU member states, such as Denmark, but it is far from being the common practice."

BusinessEurope reflected with its member associations to identify the main challenges associated with the digitalization of corporate governance and company law and to make recommendations to address those challenges. It published its findings in a paper entitled **EU company law going digital.**

According to the paper, the main challenges are as follows:

1. Finding the right balance between regulation, self-regulation and market development. Legislation will not force companies to go digital: there needs to be a balance between the legal framework and market development.
2. Establishing a technologically neutral, future-proof approach that encompasses several different solutions. It is counterproductive to rely on one solution alone.
3. Determining what aspects of digitalization should be left to member states and what to leave to the EU with regard to subsidiaries.
4. Safety is the biggest obstacle to the digitalization of company law and corporate governance. When it comes to cybersecurity, the strength of the whole system will always be measured against its weakest link.
5. Identifying the added value of going digital – there is no point going digital just for the sake of it. Every company must see how and why digitalization can improve its corporate governance.

The paper recommended that there should not be a one-size-fits-all approach to digitalization. "Diversity and flexibility are very important when going digital for company law and corporate governance," said Chauvin.

He added: "We would like to see a gradual parity between physical publications and digital publications and we need more work done on the set-up of e-identification. We should aim for a correct and swift implementation of the eIDAS Regulation (on electronic identification and trust services for electronic transactions) and the directive setting up the interconnection of EU business registers. Finally, we need a more harmonized approach to security, with more coordination and cooperation between national authorities."

Other initiatives have an important role to play, Chauvin said. These include the Shareholder Rights Directive and the EU's single-member company project, which both endorse digital. BusinessEurope believes that national corporate governance codes should promote more digitalization at a general assembly and vote level. It is also necessary to address the digital skills gap and ensure that more people in companies are equipped with digital skills.

## Digitalization in practice

"To me the essence of corporate governance is about how to run a better company in the long term and how to create value for its owners in the long term," said Markus Kaum, Head of the Legal Department at German reinsurer Munich Re. "Corporate governance differentiates between the role of managing a company, the role of controlling management and the owner's role in exercising their rights over management. For that, you need a dialogue that allows the possibility for owners to exercise their rights and for owners and companies to have mutual knowledge."

Digitalization plays a crucial role in enabling owners to exercise their rights, particularly in the case of large multinational businesses that will typically have large numbers of overseas shareholders. "You have to think about how you enable owners outside your home country to exercise their shareholders' rights," said Kaum.

Giving the example of Munich Re, Kaum explained that the company has around 210,000 shareholders on its issuer register. Of those, 95.6% are private shareholders in Germany. Nevertheless nearly half (48%) of Munich Re's share capital is held by institutional shareholders abroad. The company sends out invitations to annual general meetings, where shareholders can exercise their voting rights, via post and email. It allows registrations via post and email and has noticed an increasing tendency towards digitalization in registrations. Online is also gaining influence in postal voting. Shareholders are reluctant to participate in annual general meetings using digital technology, however. In 2016, just 156 shareholders participated in Munich Re's AGM online, compared with 2,795 who participated in person.

The challenge, said Kaum, is ensuring that shareholders based outside Germany have sufficient opportunities to exercise the voting rights they acquired when they bought a share. This is a particular problem for retail investors, but even large institutional investors that use intermediaries can struggle to exercise their voting rights. There are many examples of intermediaries not properly following the voting instructions given to them by investors.

Ultimately companies need to know more about their shareholders if they are to use technology to encourage greater participation. "Technology can be used to enable investors to exercise their rights," Kaum explained. "But you need to know data about your shareholders to be able to offer them the right to use digital means for participating in the meeting, be it electronic voting or electronic participation. You need to follow the data from the intermediary to their client to enable shareholders to exercise their rights."

Kaum believes that while privacy is an issue with digitalization, there should be no question of privacy when it comes to a company knowing who its owners are. "There needs to be mutual knowledge between the company and its owners," he said but acknowledged that shareholder data needs to be protected from cybercriminals or analysts who might want to use it to sell their services.

Munich Re uses digitalization for a wide range of activities including digital meetings, virtual conference and virtual project rooms. "All our analyst conferences and all our digital presentations are put on the web at the moment they are happening in the room," said Kaum. "Every shareholder at Munich Re can participate in all our analyst conferences. Worldwide, wherever they are, they can hear what our CFO is telling the representatives of Prudential and BlackRock at the time he is saying it."

## The cyber threat

Moving on to the topic of cybersecurity, Miroslav Trnka, Co-founder and Co-owner of Slovakian IT security company ESET said: "We have to protect the digital environment because it brings value to us. In our company, we record around 300,000 new malware every day. Meanwhile, perhaps 70% or 80% of all internet traffic consists of spam and viruses. So if we are talking about digitalization, we also have to seriously think about security."

Ann LaFrance, Partner and Co-leader of the Data Privacy & Cybersecurity Practice at international law firm Squire Patton Boggs, confirmed that cybersecurity is a critical issue for boards at present – along with data protection and privacy.

"For consumer-based companies, monetizing the use of personal data has become the gold rush of the 21st century," she said. "But even if you are a business-to-business company, you are still processing personal data because you have employees."

LaFrance explained that many technology companies understand the importance of using data responsibly because it affects their brand value and reputation. Nevertheless, some companies may not yet fully appreciate that having control of extensive amounts of personal data could mean they will be subject to greater regulation over time under the competition rules or new regulatory frameworks aimed at digital platforms.

In May 2018, the new General Data Protection Regulation (GDPR) comes into effect. Intended to strengthen and unify data protection for individuals within the EU, it includes an accountability principle that gives corporate boards responsibility for ensuring that their companies protect the data they hold and use it responsibly. Where companies fail to comply with the GDPR, they could face penalties of 4% of global turnover or €20 million, whichever is higher. "These are very similar to the penalties for violation of competition rules," noted LaFrance. "They are meant to get the attention of corporate boards."

Cybersecurity relates to the protection of personal data as well as the protection of operating systems, corporate records and intellectual property. To emphasize the importance of cybersecurity, the EU has adopted the Network and Information Services Directive, which will require those involved in the ownership and operation of critical infrastructure to abide by cybersecurity laws.

It is not just about infrastructure; people also have a big role to play in cybersecurity. "The majority of problems arise though the actions of employees," explained LaFrance. "Usually this happens unintentionally, but sometimes not. Employees can fall victim to phishing exercises where they unwittingly give out their data, then hackers infiltrate the system by impersonating those employees. "System infiltrations raise very serious governance concerns. Cyber attacks can harm an organization's operations and lead to the theft of its intellectual property. In the absence of appropriate security, cyber attackers could also easily manipulate the results of voting on the digital platforms and proprietary systems used in shareholder annual general meetings."

She continued: "We need to spend time, money and effort, not only on systems, but also on training employees and making sure they understand what phishing is so that they can avoid getting caught up in the net cast by would-be hackers and help ensure that the company doesn't suffer as a result."

Under both the GDPR and the Network and Information Services Directive, European companies will have new obligations to notify both the supervisory authorities and the data subjects of data breaches. In the case of the GDPR, this is no more than 72 hours after the company became aware of the breach unless that is not feasible. "If you haven't got your corporate governance ducks in a row regarding data protection and cyber security preparedness, and if you haven't followed the accountability assessment process, I can tell you – having assisted many clients with data breaches already – there's no way you can meet the 72-hour deadline," LaFrance said.

At present, shareholder voting in the US is under scrutiny over concerns that a cyberattack could influence a vote and the company might not even know it. Furthermore, the US Securities and Exchange Commission believes that boards have a crucial role to play with regard to the oversight of cyber risk management. Hence it requires publicly traded companies to include in their disclosure statements the extent to which they believe their systems may not be up to standard. "This is an area where corporate governance is merging with the external regulatory obligations that are requiring companies to spend quite large amounts of time and money to resolve the problem of security in a digitalized world," observed LaFrance.

## Communication with shareholders

Jonathan Nelson, a Member of the Corporate Governance Leadership Team at analytics provider Sustainalytics, outlined the three main areas where digitalization is impacting businesses:

1. Regulatory and listing requirements – including digitalization of annual general meeting notices and annual disclosure documents.
2. Administrative functions – including filing the initial documents to become a public company and functions such as HR, payroll and systems.
3. Business operations – for example, the process of moving from being a bricks and mortar store to becoming an online store only.

The first and second areas are most relevant to corporate governance. Nelson explained that the digitalization of regulatory and listing requirements "opens up the channel for international capital to flow into regional, smaller markets that did not previously have access". This does present some challenges for companies, however – in particular, whether they will be able to handle a tide of incoming enquiries from shareholders and stakeholders as a result of the increased disclosures they make.

Sustainalytics conducted research of the largest companies in Europe by market capitalization. It found that just 45% of these companies have specific shareholder engagement policies that explain how shareholders can make enquiries and who they should make them to.

"That means that 55% of large companies in Europe currently do not have that capacity," observed Nelson. "They either just provide an email address, which may or may not be responded to, or a contact form that just goes into the ether and may be responded to or not."

Turning to cyber risk, Nelson revealed that the Sustainalytics research had also found that over half (i.e. 56%) of large companies do not have risk management policies that enable shareholders to evaluate the systems that companies have put in place and understand who they can contact when something does go wrong.

He also noted that while boards are responsible for monitoring cyber risk, it is not clear that directors are capable of evaluating the risk reports that they receive. A recent report by NASDAQ, in association with a cyber security risk education provider, found that 60% of boards do not view cyber risk as their purview. The same research highlighted that the level of financial literacy among non-executive directors in companies in the UK and Germany was between 49% and 65%, rising to between 65% and 70% for executives.

"Non-executives are important because in a debate they are supposed to provide a robust counterpoint to management's agenda," noted Nelson. "So if you have such a high gap in financial literacy and cyber risk literacy between execs and non-execs, how do we know the cyber risk policies that the executives are putting in place are actually capable of performing the function they are supposed to do?"

He emphasized that smaller-cap companies have limited capacity to manage these risks and are even less equipped than their larger peers to handle the influx of shareholder communication that will follow initial digitalization.

Nelson finished by pointing out that companies should be mindful of how they communicate with their owners since shareholder activism is on the rise in Europe. In 2014, there were 51 cases of targeted shareholder activism. In 2015, there were 67. Yet, in the first six months of 2016 alone, incidents of shareholder activism had risen to 64.

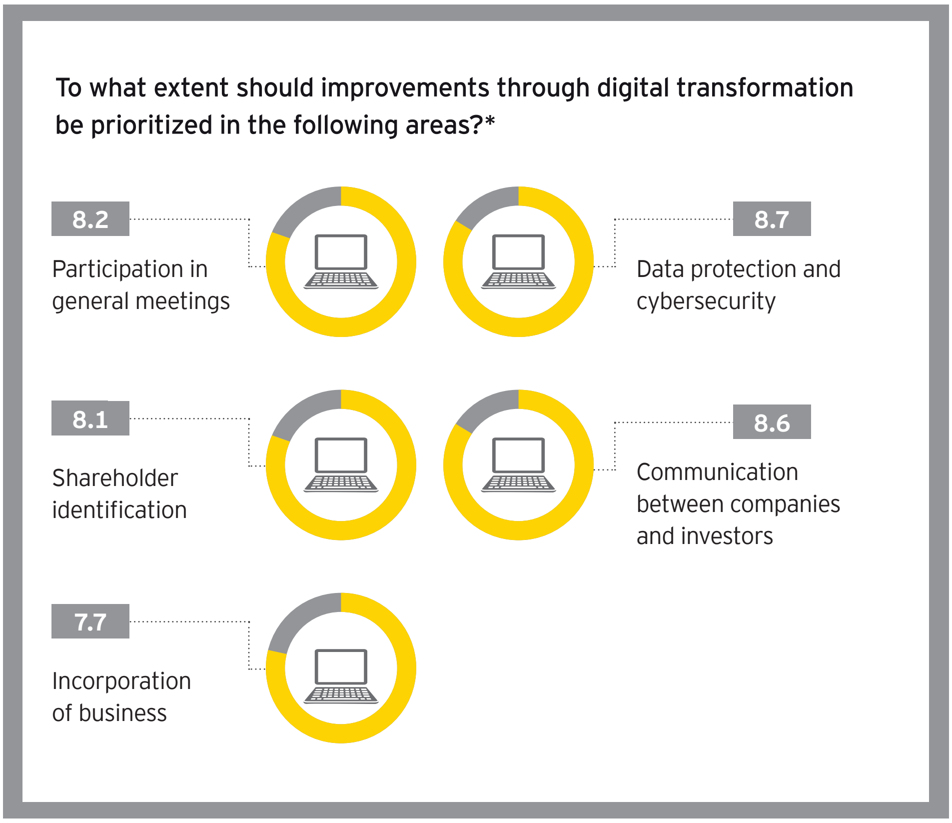
## Panel discussion

Trust is an important issue with respect to digitalization, panelists agreed in the Q&A. "We need trust in the system but it's two-way – not just from shareholders, but also from companies," said Chauvin. "If there is a technological problem in the system that prevents a shareholder from being able to vote online, that shareholder might be able to challenge the decision of the general assembly in some countries. As a result, companies are thinking twice before going digital unless they have real trust in the system."

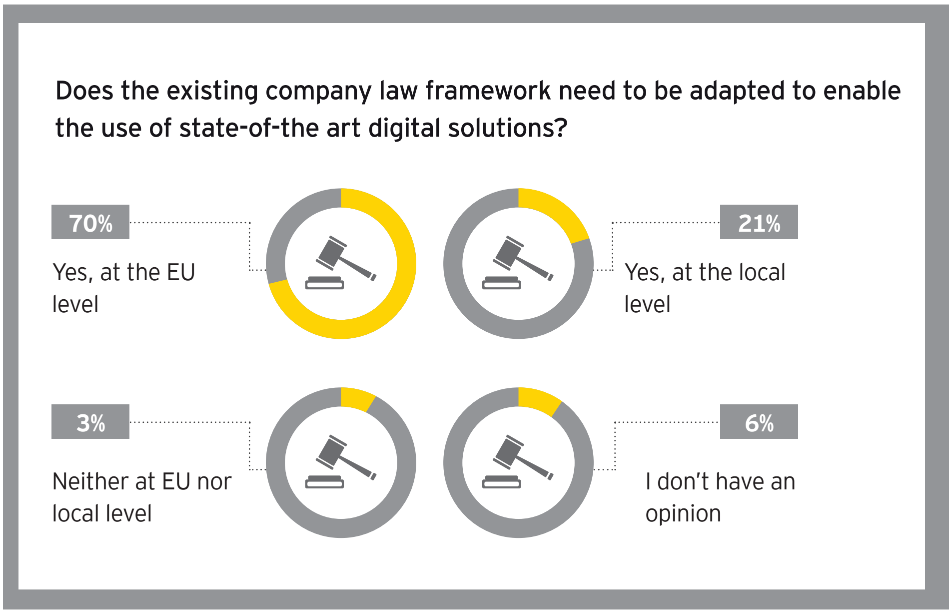
Responding to criticism that the current system for shareholder voting is not working, Kaum acknowledged that there were issues with it but he predicted that technology could help to improve it, particularly if data formats and data fields were standardized and use was made of legal entity identifiers.

Summing up, Chauvin said: "We don't have a silver bullet. Digitalization is not just one proposal. It's a series of proposals that will gradually make digital more used in company law and corporate governance."

# Audience poll*




*Polling was done on a scale of 1–10



05

# Audit Committees and the new regulatory paradigm

The theme of the final panel discussion was how the role of the audit committee is evolving in response to new audit legislation and the changing expectations of investors, regulators and society at large.

**Panellists:** **Auke de Bos**, Professor at Erasmus University and Professional Practice Director for the assurance practice, EY Netherlands

**David Devlin**, Chairman of the European Corporate Governance Institute

**Guylaine Saucier**, Board Member and Audit Committee Chair of Wendel

**Guy Jubb**, Independent Governance Advisor and Member of the Standing Advisory Group of the Public Company Accounting Oversight Board

**Moderator:** **Jeremy Jennings**, Regulatory & Public Policy Leader, EY EMEIA

"I don't know how we are going to manage mandatory auditor rotation if one country is on 10 years and another country is on eight years. In France, we have two auditors. We will need a program to manage it. It is going to be an awful job and totally inefficient."

**Guylaine Saucier**
Board Member and Audit Committee Chair of Wendel

European audit committee members have more responsibilities and face more challenges than ever before, particularly in light of EU audit legislation that took effect in June 2016. The closing panel session, moderated by Jeremy Jennings, Regulatory & Public Policy Leader, EY EMEIA, explored the new regulatory paradigm and its practical implications for audit committee members.

## New EU audit legislation

David Devlin, Chairman of the European Corporate Governance Institute, opened the discussion with an overview of the new EU regulatory framework on statutory audit, which includes an amended directive and a regulation.

He explained that both the directive and the regulation contained ambiguities.

"Enhanced auditor reporting enables investors to unlock what I call 'the black box' of auditing."

**Guy Jubb**
Independent Governance Advisor and Member of the Standing Advisory Group of the Public Company Accounting Oversight Board

At the same time, member states were given numerous different options under the legislation, which will mean there is a "patchwork" of different audit regimes across Europe – minimum harmonization, in other words.

Under the new legislation, companies that are defined as public interest entities (PIEs) must either rotate their auditor or put their audit out to tender after a maximum of 10 years. Member states have the option to adopt a shorter time frame for rotation, allow public interest entities to keep their current auditor for a maximum of 10 additional years provided a public tender has taken place, or extend the time frame by a further four years if they use joint auditors. Broadly speaking, PIEs are considered to be listed companies as well as all credit institutions and insurance businesses, whether they are publicly or privately owned. There are approximately 37,000 PIEs in the EU.

The new legislation also introduces stricter independence requirements for auditors. It is prohibited for auditors to provide a number of basic services to the PIEs that they audit – including payroll services and certain consulting and tax advice. Assurance due diligence is allowed, but only within the boundaries of the new fee cap. The principle of the fee cap is that over three or more years, the average fees that an auditor earns from permitted non-audit services cannot exceed 70% of the audit fee.

These independence requirements, together with mandatory auditor rotation, will make life challenging for the audit committees of PIEs – particularly where a group has operating subsidiaries in member states that have adopted different time frames for auditor rotation. "You need someone to do audit and some basic non-audit services, you need someone else doing prohibited services only and someone else lined up to stay clean and become your next auditor in due course," Devlin explained.

Audit committees must meet some specific requirements under the new framework. Firstly, it is necessary for most PIEs to have an audit committee, which must be composed of non-executives, or people from the supervisory board in Germany, or elected by the general assembly. One member must have competence in accounting or auditing and the audit committee as a whole must have competence relevance to the sector.

The audit committee's tasks include overseeing the auditor tendering process, recommending a list of at least two potential auditors to the board after conducting a tender, monitoring the independence of the auditor and overseeing the integrity of the financial reporting process, including internal audit, internal controls and risk management systems.

Devlin warned that this puts "audit committee members right in the center if anything goes wrong with financial reporting, or if an auditor turns out not to be independent".

Finally, audit oversight authorities will be given wide powers to conduct inspections and publish audit market monitoring reports that comment on audit quality and the performance of audit committees, among other topics. Sanctions will be imposed on both companies and individual directors that fall short.

## The audit committee chair's perspective

Guylaine Saucier, a Canadian non-executive director who is audit committee chair for French investment company Wendel, confirmed that the new audit legislation is creating a lot of work for audit committees.

Although she approved of auditor rotation as a principle, she raised concerns over the requirement to rotate at a specific time. "When you have a set time, you might be in the middle of a merger, you might be in the middle of a restructuring, or your CFO could have had an accident," she said. "This is not a good time to change your auditor, but you don't have a choice. I think audit committees should be given some latitude."

The different rotation options available to member states are also an issue, Saucier observed. "I don't know how we are going to manage if one country is on 10 years and another country is on eight years. In France, we have two auditors. We will need a program to manage it. It is going to be an awful job and totally inefficient."

Regarding the requirement for audit oversight bodies to report on the performance of audit committees, Saucier commented: "Our work is based on our relationship with management – the transparency and trust of this relationship. If they decide to send an observer, I would strictly oppose that. It would probably diminish the transparency between the audit committee and management that is essential for us to do a good job."

Turning to the evolving role of the audit committee, Saucier said that the responsibilities of audit committees had expanded significantly over the three decades that she had sat on them. "At the very beginning, our role was to review financial statements and recommend their approval by board," she recalled. "We probably had an hour-long meeting four times a year."

Now audit committees tend to oversee the efficiency of their company's controls and risk management systems alongside monitoring the financial reporting process. "Most risks are under the oversight of audit committees and I'm not sure that we have all the expertise to do it properly," noted Saucier. "This does not only apply to Europe; it is my experience on both sides of the Atlantic."

## Long-term value creation and corporate culture

Two important new developments in corporate governance will have an impact on the future functioning of boards and audit committees, said Auke de Bos, professor at Erasmus University and professional practice director for the assurance practice, EY Netherlands. These two developments are a greater focus on long-term value creation within companies and an emphasis on a healthy corporate culture.

De Bos revealed that the Dutch Corporate Governance Committee is revising the *Dutch Corporate Governance Code* to include the concepts of long-term value creation and culture. The committee believes that listed companies – which tend to place a strong value on short-term profits – can learn from family-owned businesses, which more typically have a long-term perspective.

After noticing that most of the companies with poor management were too focused on the short term, the Dutch Corporate Governance Committee gave supervisory boards and audit committees responsibility for creating a culture aimed at long-term value creation. "To make this work, it is important that the company has common values, that the values are embedded in a code of conduct and that the board sets the right tone at the top," explained De Bos.

The committee's thinking in this respect had been influenced by a report from the UK Financial Reporting Council entitled *Corporate*

*Culture and the Role of Boards*. According to the report, a healthy culture both protects and generates company values.

Commenting on the future regulatory paradigms for boards and audit committees, De Bos said: "High-quality corporate governance will help companies and capital markets to achieve good long-term performance, which will probably stimulate foreign direct investment."

When it comes to assessing audit quality, De Bos's advice to audit committees was this: "You need a relationship with your auditor that is based on trust. Research in the field of what is important when selecting an auditor shows that it starts with the individual in question. Has the auditor got boardroom presence? What's his or her experience in the sector? Is he or she someone I can trust? Is he or she someone who can challenge me?"

## Governance and investors

Former institutional investor Guy Jubb spoke in his capacity as an Independent Governance Advisor, rather than as a Member of the Public Company Accounting Oversight Board's Standing Advisory Group.

He identified three areas where investors have encouraged recent changes in corporate governance. These are the increased integration of corporate governance and audit matters into investors' long-term decision making, investors' changing expectations of auditors and audit committees, and investors' growing engagement with audit and accounting matters.

The integration movement is gaining momentum throughout the global investment market because fund managers want to have a better understanding of the risks associated with the companies they invest in, explained Jubb. "More and more fund managers, responding not just to their increasing client demands but also to changing societal and regulatory requirements, are recognizing the importance of environmental, social and governance issues in terms of how they apply their capital."

With regard to culture, Jubb said that experienced investors who ask the right sorts of questions could learn a lot about the board's approach to culture. "How the chair, CEO and CFO answer questions on culture tells professional investors a huge amount."

Investors are also increasingly focused on accounting policies and companies' adjusted earnings. "In the UK we've had two years of enhanced auditor reporting and it's coming to the rest of Europe," Jubb explained. "This enables investors to unlock what I call 'the black box' of auditing. Until we had transparency in this area, investors struggled to find any hooks with which to engage and have discussions with companies. The information provided on the planning of the audit, the key audit risks, and so on, have enabled conversations to take place, which did not take place before."

Jubb revealed that investors want to explore how audit committees exercise their challenge to management in relation to assumptions and judgments about loan impairment and whole host of other issues. "Investors regard audit committees as the first line of defense," he said. "So they are looking to audit committees to demonstrate that they have challenged assumptions, satisfied themselves that those assumptions are appropriate and robust, and have done so with an independent mind."

He confirmed that investors are increasingly looking to the audit committee to scrutinize not just financial risks, but cultural risks, environmental risks and regulatory risks. Furthermore investors expect the audit committee to play a role in ensuring that internal systems are "delivering the right information to the right people at the right time". They also want the audit committee to ensure that disclosures are fair, balanced and understandable.

Jubb concluded that change was "definitely taking place" with respect to investors integrating corporate governance and other environmental, social and governance factors into their long-term decision making.

"In five years' time, we may have auditors doing audits of culture and diversity, moving beyond financial statements," he predicted. "But we have to be very careful from a public interest point of view that the board does not delegate too much to the audit committee and you have almost a reversal of roles taking place."

## Panel discussion

A poll of the audience revealed that most delegates at the conference had never read an audit committee report. Moderator Jeremy Jennings queried why this would be when they are part of the 'black box' of auditing. Saucier suggested the reports are "not the most exciting reading".

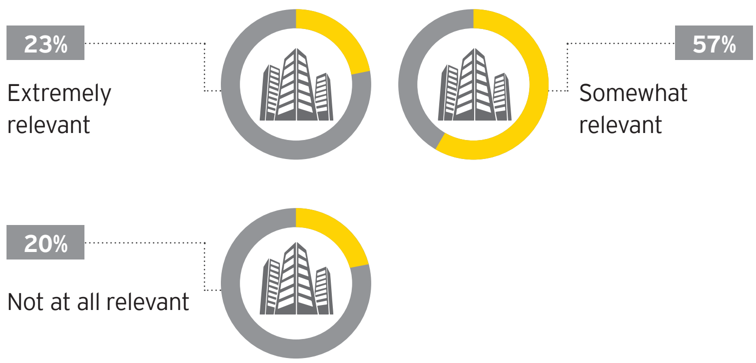
Nevertheless, Devlin emphasized that audit committee reports are critical business documents. "The preparation of the audit committee report, even if it's complicated, will focus attention on whether the job is being done correctly within the company," he said. "I don't think audit committee reports will ever be bedtime reading but I do think that they will be studied with minute care when something goes wrong. So it is worth taking trouble over them."

Audit committee reports can be invaluable to investors, noted Jubb. "I find audit reports and audit committee reports full of useful information that is helpful in understanding the quality of the financial reporting process. But I believe very few people read audit committee reports from cover to cover. Professional investors need to look at themselves hard in the mirror over this." Overall, he said, investors need to raise their level of competence in financial reporting.

# Audience poll*

How often have you read an audit committee report over the past year?


How relevant is corporate governance in your domestic environment?



# Principal conclusions

**The conference reached a number of conclusions that can help to improve corporate governance within the EU. These, therefore, merit the consideration of policymakers:**

## Corporate governance in a global context

- Corporate governance should be tailored toward helping a company to deliver on its purpose. As such, corporate governance frameworks should be diverse and flexible so that they can be adapted to a company's particular purpose and activities.
- It may be necessary to promote the adoption of different business models, such as the public benefit corporation model that is seen in the US.
- Corporate governance will only be effective if there is a yin to a yang. So where companies abide by a code, they should also have the opportunity to 'comply or explain'. In other words, if there is a recommendation that is not appropriate for the company, it would engage with shareholders to explain why it is deviating from the code.
- Smaller public companies do not have the same resources as larger companies in either the management team or the boardroom. So they need to receive governance information that is relevant and helpful, both to them and their investors.

## Challenges for the board: remuneration and transparency

- Shareholders have a vested interest in ensuring that executive remuneration corresponds with performance, but it is debatable whether they should be expected to ratify both pay policies and the actual pay packages proposed by the remuneration committee.
- Transparency around executive pay tends to lead to an increase in compensation as directors compare themselves with peers in other businesses.
- Remuneration packages should be structured with a company's specific aims and objectives in mind.
- There are risks associated with giving equity-based compensation to directors since the markets rely on these individuals to be transparent about their company's fortunes.

## The relationship between digital transformation and corporate governance

- There should be not be a one-size-fits-all approach to digitalization – it is important that diversity and flexibility are maintained.
- Digitalization is critical to enabling owners to exercise their rights, particularly in the case of large multinational businesses that typically have large numbers of overseas shareholders.
- Cybersecurity is not just about infrastructure. Employees need training so that they avoid unwittingly giving out their personal data and enabling hackers to infiltrate company systems.
- The digitalization of regulatory and listing requirements presents challenges for companies that are not prepared to handle a tide of incoming enquiries from shareholders and stakeholders.

## New EU audit legislation

- The new requirement to rotate auditors, together with stricter independence requirements, will make life challenging for audit committees of PIEs – particularly where a group has operating subsidiaries in member states that have adopted different time frames for auditor rotation.
- Certain responsibilities are being handed over to the audit committee, when they should fall within the domain of the main board. Many audit committees have oversight of risks in areas where they lack the necessary expertise.
- The relationship between the audit committee and the auditor is primarily based on trust.
- Investors see audit committees as the first line of defense when it comes to the integrity of the financial reporting process. They do not always devote as much time as they should to reading audit committee reports, however.

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